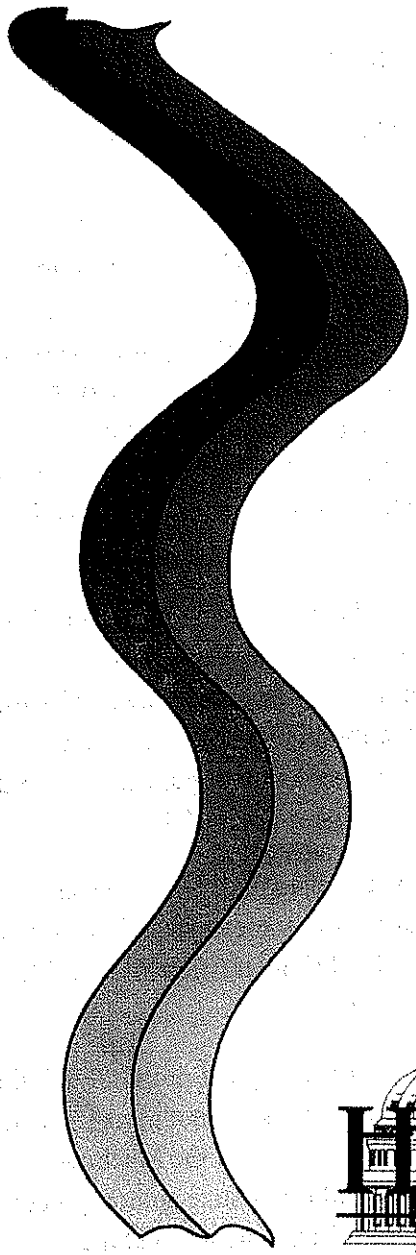

Another Michigan-Ontario Border Crossing: Once Again a Solution in Search of a Problem

September 21, 2011

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Specializing in Taxation & Public Policy Analysis

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Commissioned by the Detroit International Bridge Company

Executive Summary

The Michigan Department of Transportation (MDOT) and government of Canada have for many years desired to have a second bridge built over the Detroit River, linking Windsor with Detroit. A major debate regarding building a government-owned bridge occurred during the 2005-06 legislative session. The Legislature turned down what was then named the Detroit River International Crossing (DRIC). Last session, once again the Legislature refused to enact legislation that would enable MDOT to put a another bridge across the Detroit River two miles south of the Ambassador Bridge, a privately-owned facility that has connected Detroit and Windsor since 1929.

The new embodiment of this project is the recently-introduced Senate Bills 410 and 411. These bills would create a new authority, the Michigan Governmental Authority for a New International Trade Crossing (NITC), within MDOT. The new bridge would be owned by the authority along with a Canadian authority, and would supposedly relieve potential congestion at the three existing Michigan-Ontario vehicle crossings. But the congestion argument flies in the face of evidence of declining traffic on the three other vehicle bridges since 1999.

Traffic volumes at the three existing vehicle crossings are down substantially over the past decade. Given that Michigan's economy has performed poorly by any measure and the national economy has 14 million unemployed there is little indication that bridge traffic will return to its 1999 volumes anytime soon.

There are a large number of uncertainties and conflicts that are created by the proposal to build a new government-owned bridge. While it is claimed that taxpayer dollars are not at risk, this is almost certainly not true. The prior history of state government subsidies of the Mackinac Bridge Authority, as well as the fact that the rating of $22 billion of other state authority debt would be put at risk should the new bridge authority default on its bonds means that the Michigan taxpayer will likely stand behind the new bridge.

The case for a new government bridge is especially weak given that the Michigan-based owners of the Ambassador Bridge, Detroit International Bridge Company (DIBC), have been committed to Congress for several years to building a new span for their bridge and only await completion of the Environmental Assessment process on the Canadian and U.S. sides of the Detroit River.

DIBC is in the process of refurbishing the existing span as well. DIBC is well known for its efficient operation of the Ambassador Bridge. An article in the *Windsor Star* noted that "Engineers from around the world have visited to marvel at how the work is able to proceed one lane at a time while traffic continues to run on three remaining lanes."

The proposal to borrow $550 million from Canada to build connections with a new toll and customs plaza, that itself relies on federal funding that has not been obtained, is also fraught with difficulties. The terms of the loan have not been set, and the Canadians would have a larger equity stake in the new bridge until the loan was repaid. The loan and interest is to be paid from bridge tolls. This further reduces the chances that the bridge tolls will be sufficient to pay off the authority bonds.

It has been argued that the Canadian loan can be used to obtain an additional $2 billion in federal highway funds for Michigan, but this is not correct. Michigan is eligible for a fixed amount of federal funds under the Surface Area Transportation Reauthorization Bill. The state need spend at most $300 million annually to get its share of federal funds and no state has failed to spend enough to get is share since 1991. At best, a portion of the $550 million could be used to replace other funds that Michigan could divert to eligible projects.

The spending of $2 billion in taxpayer dollars for a project the benefits of which cannot be clearly substantiated at a time when the federal government, the State of Michigan, and local government are under financial strain is not wise. Michigan would be best served by attempting to expedite the federal assessment process to allow DIBC to proceed with a second span and encourage Canadian authorities to do the same.

I. Introduction: Frequently Asked Questions

Is bridge traffic volume a concern?

Traffic volume at the Ambassador Bridge peaked at 12.44 million in 1999 and was only 7.23 million in 2010. The Detroit-Windsor Tunnel has seen traffic fall from 9.61 million crossings in 1999 to only 3.61 million in 2010. The Blue Water Bridge, which had a twin span completed in 1998, has seen traffic volume fall from its peak in 2000 of 5.98 million to 4.75 million to 2010.

While MDOT has released reports over the years stating that there will be a large enough increase in traffic volume to justify a new span, these reports have invariably been overly optimistic. As Hillsdale Policy Group and Public Sector Consultants pointed out in a 2005 report, "Every traffic demand projection by governmental transportation planners throughout the DRIC's study has proven wrong and required overhaul." MDOT has not provided an investment grade traffic study that would substantiate their claim of the need for more bridge capacity.

Given other economic evidence, such as the fact that Michigan's real gross domestic product has fallen from $377 billion in 2003 to less than $345 billion in 2010, that its manufacturing employment has fallen from 896,000 in 2000 to 497,000 in June of this year, and that Michigan was the only state in the nation to lose population in the last Census, there is little reason to expect that projections of an imminent need for a new bridge will be accurate.

What about traffic projections for the NTIC and plans of existing crossings?

Even if traffic volume does increase, MDOT's proposal for a new bridge puts aside the fact that the private owners of the Ambassador Bridge have been committed to building a new six lane span paralleling the existing four lane span. This additional span has been in the plans of the Ambassador Gateway Project for several years, and MDOT and the U.S. Department of Transportation have acknowledged such. Once the final U.S. Coast Guard and Canadian environmental assessment has been completed, the new span can be completed within 30 months.

In addition to the second span of the Ambassador Bridge, MDOT's proposal makes little regard for the fact that the Windsor Port Authority, along with Borealis Infrastructure, a division of the Ontario Municipal Employees Retirement System (OMERS), and Canadian Pacific (CP) have formed the Continental Rail Gateway coalition (CRG) to pursue opportunities for the development, funding and construction of a replacement rail tunnel under the Detroit River. Environmental Reviews began with the state of Michigan and the Army Corps of Engineers in 2009. The high-clearance replacement rail tunnel will allow double-stacked container trains out of the Port of Montreal to use the Montreal/Windsor/ Detroit/Chicago corridor. This will draw truck traffic from the existing vehicle crossings and further undermines the projections of the NITC viability.

Are delays, if they exist, due to a lack of bridge capacity?

An oft-cited study by Canadian university researchers uses a newly developed model to estimate the costs of delays at Canadian border crossings, but the impetus for the study is the increased delays caused by border security after 9/11, not a lack of bridge capacity. Most of the examples of delays given in the paper are due to lack of inspection capacity and utilization.

The twinning of the Blue Water Bridge points out that the problems of delay are in congestion at the U.S. plaza. The Blue Water Bridge, within a decade of the twinning of the bridge and in the face of declining traffic volumes, began plans for dealing with congestion due to problems with the design of the customs plaza. There is now a $300 million project to redo the original plaza, which was elevated and could not meet the security inspections without causing delays.

The delays and uncertainty in federal funding have resulted in a scaling back of even the Blue Water plaza project, highlighting the problem of beginning the process of a government-owned bridge that relies heavily on federal government financing for the customs plaza and added infrastructure.

Will there be Michigan taxpayer dollars at risk?

The claim is that because the bridge would be owned by an authority housed within MDOT, and that the bridge would be built using proceeds from bonds to be issued by the authority, that the authority would assume the all the risks associated with a failure of the new bridge to meet its operational costs and debt requirements. Language in the bills attempts to shield that state from expenditures on the bridge. However, both past experience and common sense make it plain that taxpayers will bail out the authority should traffic and revenue estimates not meet the optimistic projections and should substantial cost overruns develop.

The Mackinac Bridge was also built by an authority and financed by authority bonds. The principal and interest on the bonds were to be paid for by toll revenues, and the tolls were to disappear once the principal and interest on the bonds were paid off. The reality is that the Legislature almost immediately provided an operating subsidy of $417,000 per year, with the result that more than $12 million was advanced and none of it has been repaid according to the September 30, 2010 Audit Report of the Office of the Auditor General. In addition, a total of $63 million was advanced by the Legislature to the authority to assist in the payment of principle and interest on the bonds, with less than $12 million having been repaid by the time of the audit.

Common sense tells us that should the NITC Authority not be able to make its debt payments, that legislation would be enacted to provide taxpayer subsidies. Michigan currently has more than $22 billion in special authority and MDOT debt obligations outstanding, compared to $1.7 billion in state general obligation debt. It is not likely that the state would allow a default on the NITC Authority debt, as it would certainly increase interest costs on the remainder of its special

authority debt. So despite that statutory language and rhetoric to the contrary, there will be an implicit taxpayer guarantee of the project.

Are the Canadians giving Michigan $550 million for the project?

There are two letters from Canadian authorities to Michigan governors stating that Canada would participate in the financing of the project. It is relatively clear that the Canadian government expects to be repaid. In the April 2010 letter from John Baird, former Minister of Transport, Infrastructure and Communities, to Governor Granholm, Mr. Baird stated, "Amongst other terms to be negotiated to the satisfaction of both Canada and MDOT, Canada would expect repayment from the anticipated toll revenues to be derived from operation of the bridge." Other comments by Canadian authorities as reported in the press indicate that Canada would expect to have a larger equity share in the bridge until the $550 million is repaid.

So what is really being proposed is Canada will lend $550 million to the authority and expect it to be repaid with interest by toll revenue. This will add to the uncertainty that toll revenues will be sufficient to pay the operating costs of the bridge and the principal and interest on the bridge. It also may result in Canadian majority ownership in the bridge, something that has not been discussed at all.

Will the Canadian loan result in $2 billion in additional federal funds?

Claims have been made that the Canadian loan money can be used by the state to obtain an additional $2.2 billion in federal highway funding. However, the amount of federal funds available to Michigan is fixed by the Surface Transportation Reauthorization Bill and will not be increased by spending on the NITC no matter how funded. The only way the $550 million could possibly assist Michigan in obtaining federal funds is if Michigan is not able to spend enough on eligible projects to meet its federal match. Michigan has never failed to meet its federal match, so it would be odd if it failed to do so.

In addition, since Michigan raises about $1.8 billion annually for its transportation fund, far in excess of what is needed for to obtain its federal match, it can certainly fund enough projects that are eligible for the federal match to obtain the state's full share of federal funds. The Canadian loan would then at best replace the funds that might be redirected from non-eligible transportation projects to eligible projects. Thus, there would be no multiplied effect of the Canadian money and since it is possible that federal funding will be declining in the near future, it is likely that Michigan will meet its match without the Canadian money.

What is the effect on the other crossings?

The MDOT reports clearly assume that the new government bridge will draw a substantial amount of traffic from the other crossings. The December 2008 Final Environmental Impact Statement for a Detroit River International Crossing(DRIC) estimates that by 2035 there will be

a 16 to 18 percent decline in peak hour truck traffic on the Blue Water Bridge with the introduction of DRIC by 2035, and a 7% decline in auto traffic overall. The Detroit-Windsor Tunnel would suffer a 20 to 26 percent decline in total traffic, and the Ambassador Bridge would have a 37 to 39 percent reduction in car traffic and a reduction of 75% of its truck traffic.

According to the Wilbur Smith study, from 2016 through 2035, market shares for the Ambassador Bridge, Blue Water Bridge, and Detroit-Windsor Tunnel are expected to decline by approximately 44%, 23%, and 22% as a result of traffic shifting to the NITC. In 2016, about one-third of the NITC traffic volume will be from shifting traffic from one government-owned entity to another.

It does not make economic sense for the government to build and own a bridge that results in drawing traffic from a private sector bridge, from a bridge that is owned by the same government, and a tunnel that is jointly owned by the City of Detroit and the City of Windsor, while at the same time traffic flows are substantially below what existed a decade ago and plans are being made to expand the privately-owned bridge, the customs plaza at the other government bridge, and a rail tunnel. One can also reasonably ask why the State would want to draw traffic from the recently completed Gateway Project at the Ambassador Bridge.

Can toll credit from new span of the Ambassador Bridge be used as the state match to obtain federal transportation funds?

Much has been made of the ability of Michigan to use the $550 million of Canadian funds (which must be paid back) as Michigan's match for federal highway funds. What has not been made clear is that certain expenditures used to build the new span of the Ambassador Bridge and upgrade the existing span (which do not have to be paid back) financed by toll revenues can also be used as credit to match federal funds. Under 23 USC Section 120(j) MDOT may request that toll revenues from the new span that are associated with expenditures on capital improvement be used as part of its federal match.

Should a new bridge be a bridge constructed and owned by the private sector or a government-owned bridge, perhaps constructed and operated under contract with a private vendor?

Economic theorists have long maintained the economic advantage of private enterprise and market capitalism. In this instance, the owners of the Ambassador Bridge, DIBC, face different incentives than the board of the potentially created NITC Authority. DIBC is putting at risk its own money in deciding to expand the Ambassador Bridge, and if consumers are not willing to pay tolls sufficient to meet the debt and operating costs, then the market will transfer the bridge to someone who can operate it in a way that does so.

The NITC authority members would not have their money at risk, and the construction and operation of the bridge, and well as its tolls, will be set though the political process. The Mackinac Bridge offers an example, where the Legislature ended up providing operating

subsidies to the authority in order to keep tolls at a politically acceptable level. Potential private vendors for the project will be aware of this and will likely expect some form of government subsidy.

If there is a need for a new bridge, where consumers will pay for use of the bridge more than the cost of the resources used up in constructing it and operating it, the private sector will have every incentive to produce it. The fact that the Ambassador Bridge has been able to operate as a private entity since 1929 surely gives an indication that any new bridge ought to be private.

Is There a Legal Problem with Putting Another Bridge over the Detroit River between Detroit and Windsor?

In 2010, Distinguished Professor of Law at Wayne State University, Robert Sedler, testified before the Transportation Committee of the Michigan Senate that the 1921 Special Act of Congress gave the Ambassador Bridge an exclusive franchise for a bridge over the Detroit River connecting Detroit and Windsor, and that a bridge other than one built by DIBC would need to be "specifically authorized by a new Act of Congress."

Is there Legislative Oversight of the Authority?

The new authority will exercise its functions independently of MDOT. There are a myriad of powers granted to the authority, including the ability to receive revenues from the Canadian government, set and receive toll revenues, issue bonds, determine the location, design, standard, and construction materials of a crossing, and enter into a governance agreement with a Canadian authority. It will be able to enter into a 50 year agreement with a concessionaire, and renew this agreement for another 50 years.

The new authority will have substantial powers that are not within the oversight of the Legislature, other than having some control over appointments to the board, including the ability to enter into an agreement with a contracting firm for up to 100 years. This would not be at issue if the NITC were a private enterprise subject to the responses of the market place and risking its own funds in the process. However, since there is some likelihood that the State will effectively stand behind the debt obligations of the authority, this creates one more reason to question the project.

Should a legislator vote for legislation enabling the construction of a bridge owned by a government authority?

There are a number of reasons, many of which have been outlined above, to conclude that a legislator should not vote for legislation that would result in the construction of a bridge owned by a government authority. There is certainly a question about the urgency to build a new government bridge that will cost nearly $2 billion to complete, not counting for the Canadian government expenditures on the new Canadian plaza and extension of the Windsor-Essex

Parkway. Traffic volumes and economic activity do not support an argument that a new bridge will be needed anytime in the near future. The private sector is already committed to expanding the Ambassador Bridge and there are plans for a new rail tunnel, both of which further reduce any need for the government to engage in using up valuable resources to produce another project. Should traffic volumes over the next decade sharply increase, then the issue can be revisited.

A raft of uncertainties, including the location of the new bridge on or near salt mines, the fact that taxpayers will undoubtedly subsidize the bridge should toll revenues not meet expectations or construction and operation costs be greater than anticipated, how negotiations with Canada will end up with regard to the $550 million, new uncertainties about federal funds especially after the debt limit debate, and what the effects will be on the existing facilities should all point to putting aside the idea of a government-owned bridge.

What should be done?

The most sensible approach is along the lines suggested by *TOLLROADSnews*. The U.S. Coast Guard should stick to its mandate and complete the environmental process for the Ambassador Bridge to build its second span and the Canadian government should finish processing the environmental assessment requested by DIBC. The new span will add at least 50% to the carrying capacity of the bridge, 3X3 lanes rather than 2X2 lanes, and the existing bridge could continue to be used to create 5X5 lanes. The I-75 and I-96 connections are already in place along with the customs plaza due to the Gateway Project.

The Canadian government should complete the Windsor-Essex Parkway and an extension to the Ambassador Bridge. If sometime in the future traffic demand increases enough to give solid evidence of a return to 1999 levels and steady growth from there, the plans for a new bridge can be brought forth. Should the need for an additional bridge become obvious, then the best solution will be for the U.S. and Canadian governments to do what they did in 1921 and to allow private firms to bid for a franchise to build a privately-owned bridge.

II. Background

A. Deja Vu All Over Again: We Have Seen This Before

The Michigan Department of Transportation (MDOT) and the Canadian government has for many years desired to have a second bridge built over the Detroit River, linking Windsor with Detroit. A major debate regarding building a government-owned bridge occurred during the 2005-06 legislative session. The Legislature turned down what was then named the Detroit River International Crossing (DRIC). Last session, once again the Legislature refused to enact legislation that would enable MDOT to put a another bridge across the Detroit River two miles south of the Ambassador Bridge, a privately-owned facility that has connected Detroit and Windsor since 1929.

B. What it Looks Like This Time

The new embodiment of this project is the recently-introduced Senate Bills 410 and 411. These bills would create a new authority, the Michigan Governmental Authority for a New International Trade Crossing (NITC), within the Department of Transportation. The new bridge would be owned by the authority along with a Canadian authority, and would supposedly relieve potential congestion at the three other Michigan-Ontario vehicle crossings.

The new Michigan bridge authority would be able to enter into an agreement with the government of Canada for an international bridge project. The Michigan authority would own the bridge within Michigan. SB 410 would allow the authority to select a concessionaire that could operate the bridge and collect tolls under a public-private agreement for up to 100 years.

The authority could issue bonds to finance the project, the principal and interest of which would be paid solely from project revenues and contributions. The bill states that the bonds will not be a general or moral obligation of the state.

C. Canada's Promise

As part of the discussion, but not in the legislation, the Canadian government would provide $550 million towards the funding of Michigan's costs of connecting the bridge to the interstate highway system and a new customs plaza. While this $550 million is not described as a loan in the press, the Canadian Minister of Transport, Infrastructure and Communities has stated that the money would go to the newly created authority and Canada would have an increased equity in the authority until the money is paid back.[1]

Much has been made of an agreement that Governor Snyder has obtained from the federal government that the Canadian contribution towards the total project will count as State of

[1]Jeff T. Wattrick, "Rick Snyder's Detroit-Windsor Bridge Bill Aims to Protect Michigan Taxpayers from Costs," mlive.com, April 12, 2011.

Michigan spending for federal matching funds. What is not often discussed is that funds spent by the Detroit International Bridge Company (DIBC) for a second span of the Ambassador Bridge can be eligible to count for federal matching funds. Indeed, the State of Michigan Budget for 2011-12 includes $50 million in toll credits from the Ambassador Bridge to obtain federal funds.

In addition, one must take into account the vagaries of politics. The letter from the Canadian government for the $550 million was signed by John Baird, who has since moved to Minister of Foreign Affairs. When the Gateway Project began, Canada was going to upgrade the approach to the Ambassador Bridge, and now it is pushing Michigan to build a government-authority-owned bridge three kilometers south of the Ambassador Bridge. In July of 2010, the Canadian Border Services Agency (CBSA) received a report, *Ambassador Bridge Plaza Master Plan Study* "to address the requirements of the port-of-entry at the Ambassador Bridge over the next 25 years."[2] The Canadian Transit Company in December of 2007 submitted an Environmental Impact Statement proposing a new six-lane replacement bridge immediately to the west of the Ambassador Bridge that would connect to the existing CBSA plaza.

The point is that political situations may change abruptly and the $550 million is certainly a political decision that can be undone. Clearly the Canadian government not long ago was committed to preparing for a second span of the Ambassador Bridge and now has developed a plan for a bridge to be jointly-owned, possibly majority-owned, by a Canadian government authority.

D. The Big Questions

There are a myriad of issues raised by the project that are discussed below, but there are two primary questions. First, is there a need for a new bridge due to insufficient capacity of existing crossings? Second, if there is a need for a new bridge, should it be built and owned by the private sector rather than being owned by the government?

In addressing the first question it is useful to note that government projections of traffic volume for the DRIC have been consistently overly optimistic. Since the 2005-06 legislative debate about the DRIC, traffic volumes at the three vehicle border crossings have continued the decline begun in 1999. While it is possible that we are in for a massive increase in traffic volume, the trend is certainly not one that indicates this would be the case.

Even if there is a need for increased capacity of our border crossings with Canada, there is no reason to believe that a government agency will be more efficient in producing and operating the crossing. DIBC, owner of the Ambassador Bridge, has already committed to building a second bridge near the existing Ambassador Bridge using only private funds.

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[2] Arup Canada, *Ambassador Bridge Plaza Master Plan Study,* Canada Border Services Agency, July 2010, pg. 1.

Any government project will be operated through the political system. This system will not necessarily result in the added benefits of the project exceeding the added costs, and the incentives of the political system do not drive such a result. The financing of the government bridge will be through the sale of revenue bonds. If the tolls or concession payments are not sufficient to pay principal and interest on the bonds, then it will be a political question as to whether the authority will be allowed to default on its bonds.

On the other hand, if DIBC uses up resources in building a bridge that are worth more than what people are willing to pay to use the bridge, then the owners will lose money and there would be no taxpayer risk. Thus, there is a strong incentive for any bridge expansion that is done by the private sector to make an efficient use of resources.

E. Effect on the Other Crossings

The twinning of the Ambassador Bridge will result in a new bridge that has larger capacity than the current bridge (six lanes rather than four lanes), and would allow the original bridge to be used if long term trends in traffic are indeed as great as some of the more optimistic projections. It makes sense given the fact that the new span would be less expensive to operate and maintain than the existing structure. It would also make use of the recently completed Gateway Project and newly constructed highway ramps rather than draw traffic away from Gateway as a NITC would.

A point seldom made in the discussions regarding a new government-owned bridge is the effect of a new bridge on the amount of tolls collected at the Ambassador Bridge, and by the State of Michigan at the Blue Water Bridge and the City of Detroit at the Detroit-Windsor Tunnel. Given the declining traffic volume over the last decade, it is likely that toll revenues from the other crossings will decline. Should the Ambassador Bridge traffic volume decline due to the introduction of the new crossing, a likely scenario that is assumed in the Final Environmental Impact Statement of the DRIC, then the Ambassador Bridge would have to lower its tolls, reducing demand for the new bridge and threatening the viability of that project. If the Ambassador Bridge were to become unprofitable and close, then rather than expanding the traffic corridor, the government bridge will have simply replaced a private bridge.

As is normally the case, the most efficient allocation of scarce resources will occur when the market process is the mechanism for producing goods and services rather than the political process. In this case, rather than enacting legislation to allow for a government-owned bridge based upon traffic volume projections that are not consistent with actual volume over the last decade, MDOT should work with DIBC to expedite completion of Gateway including the second span of the Ambassador Bridge. Should traffic volumes ever approach a level that would sustain an additional crossing, then the state would be best served by Congress repeating the process of allowing another private bridge franchise rather than building a government-owned bridge.

Sections III through IX develop each of these arguments in more detail.

III. Is There a Need for an Additional Bridge?

A. Traffic Projections

Currently there are three road crossings that connect car and truck traffic between southwestern Ontario and southeastern Michigan—the Ambassador Bridge, the Detroit-Windsor Tunnel and the Blue Water Bridge. In addition, the Michigan Central Railway Tunnel handles train traffic between Windsor and Detroit. The argument for a new government-owned bridge has consistently been that vehicular traffic will grow sufficiently that delays will develop at the three existing crossings and these delays will harm economic activity.

In October of 2007, a technical report released by MDOT stated: "Traffic demand could exceed the "breakdown" cross-border roadway capacity as early as 2015 under high-growth scenarios."[3] This seems unlikely with current traffic volumes well below those of 1999.

In December of 2005, Hillsdale Policy Group and Public Sector Consultants, in a joint analysis of the DRIC proposal noted that: "Every traffic demand projection by governmental transportation planners throughout the DRIC's study has proven wrong and required overhaul."[4] The reason for the need to consistently change the traffic projections is because while MDOT and the Canadian government were warning of congestion at the border crossings, actual traffic volume was falling.

The Ontario Ministry of Transportation, in November of 2005, was hoping to have a new bridge opened by 2013--two years from today. Had the Michigan legislature passed legislation in 2005 that resulted in a government-owned bridge opening in 2013 the results would have been disastrous for the Ambassador Bridge, the Detroit-Windsor Tunnel, and Blue Water Bridge, as well as the new bridge authority since an additional crossing would have been added when traffic volumes have fallen significantly.

B. Traffic Volume History

Table 1 provides data on traffic volumes for the Ambassador Bridge during the clamor for a new crossing.

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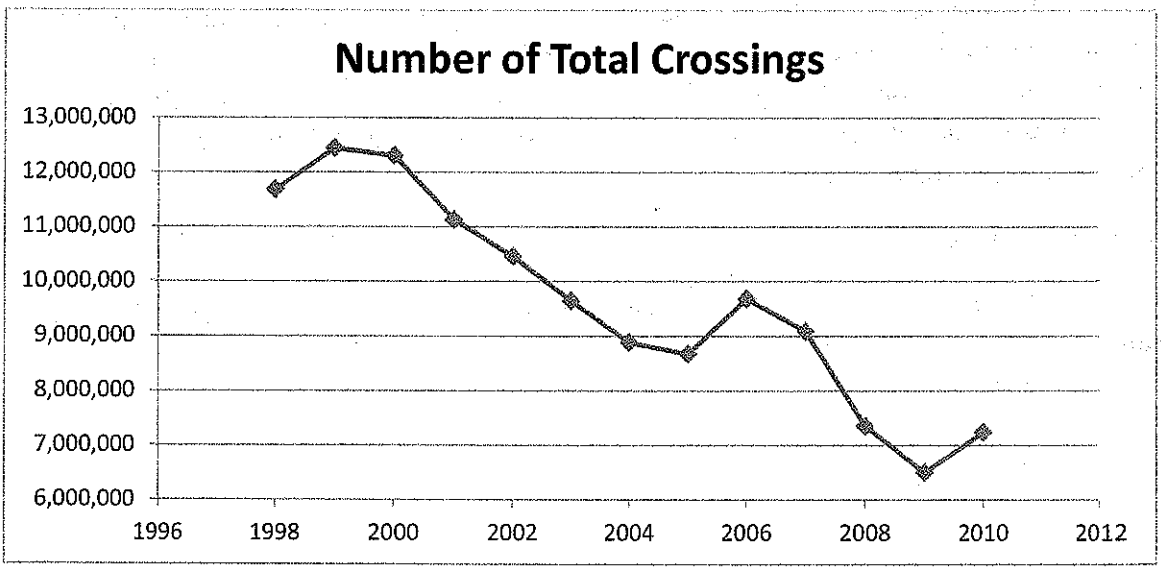
[3] Michigan Department of Transportation, *The Detroit River International Crossing Study, Evolution of Illustrative Alternatives Technical Report, Volume 2*, October 2007, pg. F-2.

[4] Gary Wolfram and Craig Ruff, *Another Michigan-Ontario Border Crossing?: A Solution in Search of a Problem*, Hillsdale Policy Group and Public Sector Consultants, December 28, 2005, pg. 2.

Table1
Total Traffic Volume at Ambassador Bridge

Year	Traffic Volume
1998	11,679,917
1999	12,440,026
2000	12,301,001
2001	11,130,319
2002	10,454,930
2003	9,644,086
2004	8,879,222
2005	8,666,989
2006	9,680,232
2007	9,082,435
2008	7,349,305
2009	6,494,620
2010	7,232,366

Source: Michigan Senate Fiscal Agency



Source: Michigan Senate Fiscal Agency

Figure 1
Total Traffic Volume at Ambassador Bridge

By 2010, total traffic volume at the Ambassador Bridge had fallen by nearly 42% from its peak in 1999. While volume rose in 2010 from 2009 and is up year-to-date (July 2011, latest numbers available) by .50%, the July 2011 volume is down more than 2% from July 2010. Truck volume for July is down more than 7.5% from July 2010. It seems highly unlikely that traffic volume will exceed the capacity of the existing bridge in the next four years, or even return to its 1999 peak by then.[5]

Traffic volume at the other border crossings reflects a similar pattern. Table 2 gives data for total crossings at the Detroit-Windsor Tunnel.

Table 2
Total Traffic Volume at Detroit-Windsor Tunnel

Year	Number of Total Crossings
1998	9,445,919
1999	9,608,655
2000	8,619,736
2001	7,748,181
2002	7,006,988
2003	6,599,241
2004	5,530,268
2005	5,493,546
2006	5,457,164
2007	4,898,425
2008	4,762,722
2009	4,002,110
2010	3,611,682

Source: Michigan Senate Fiscal Agency

[5] 2011 numbers are from the Public Border Operators Association.

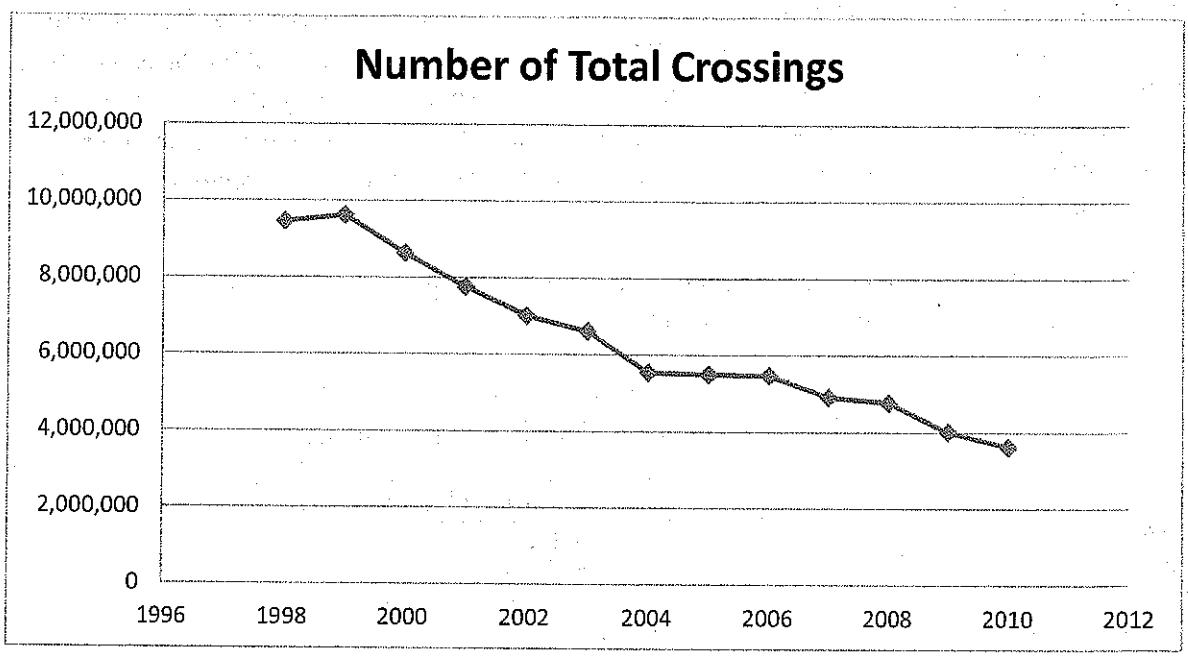


Figure 2
Total Traffic Volume at Detroit-Windsor Tunnel

As with the Ambassador Bridge, traffic volumes have fallen significantly at the Detroit-Windsor Tunnel. From its peak in 1999 to 2010, total traffic volume has fallen by nearly two-thirds, 62.4%. It would take an enormous growth in traffic to return traffic at the tunnel to anything near its prior peak. While July year-to-date total traffic is up, truck volume is down by more than 17%.[6]

The Blue Water Bridge numbers are not quite as bad, but still show a distinct pattern of decreasing volume, as can be seen in Table 3.

[6] See footnote 6.

Table 3
Total Traffic Volume Blue Water Bridge

Year	Number of Total Crossings
1998	5,197,528
1999	5,545,320
2000	5,976,831
2001	5,687,559
2002	5,596,977
2003	5,441,207
2004	5,167,685
2005	5,109,003
2006	5,331,751
2007	5,046,700
2008	4,921,945
2009	4,480,873
2010	4,747,027

Source: Senate Fiscal Agency

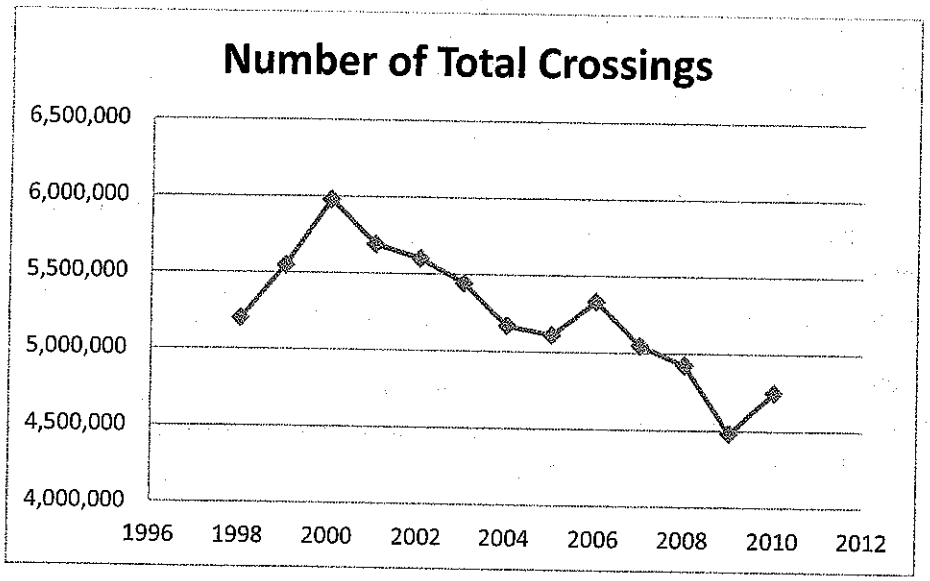


Figure 3
Total Traffic Volume at Blue Water Bridge

Traffic volume at the Blue Water Bridge peaked in 2000, declining by slightly more than one-fifth in the ensuing decade, 20.57%. An interesting point about the Blue Water Bridge is that its

history is similar to the DRIC or NITC proposal. In 1992 the Blue Water Bridge was experiencing backups with a traffic volume of about 6 million vehicles and government planners felt that a second span was needed. In 1995 construction began on a new, twin, three-lane span between Port Huron and Sarnia. The second span opened in 1998, and today's traffic volume is down to 4.747 million vehicles. The congestion did not have to do with a lack of lanes, but rather a lack of inspection facilities.

The Peace Bridge crosses the U.S. Canadian Border at Buffalo, New York. It is worth looking at traffic volumes on this bridge to perhaps give an indication of whether the decline in traffic at Michigan's border crossings is due to greater use of the Peace Bridge. Table 4 shows that this is not the case. Traffic volume has fallen across the US-Canadian bridge system.

Table 4
Total Traffic Volume Peace Bridge

Year	Number of Total Crossings
2003	7,252,322
2004	6,933,591
2005	6,904,545
2006	6,862,726
2007	6,623,693
2008	6,338,508
2009	5,894,332
2010	6,006,663

Source: The Peace Bridge, Historical Traffic Statistics, http://www.peacebridge.com/index.php?option=com_wrapper&view=wrapper&Itemid=689

Since 2003, traffic volume at The Peace Bridge has fallen by 17%. The Peace Bridge Authority also had plans to add a new span, but has shelved that idea for a new inspection station on the American side.[7] This makes sense given the trend in traffic volume and an expansion of customs facilities is more likely to alleviate congestion than adding to bridge carrying capacity.

While it is possible that models of traffic volume that predict much larger volumes, such as those of the Wilbur and Smith report to the Michigan Department of Transportation, will be correct, it is necessary to look at some of the underlying arguments, since these predictions fly in the trends of the past decade.[8]

[7] http://www.wgrz.com/news/article/126532/13/Smaller-Peace-Bridge-Plan-Proposed

[8] *Preliminary Results of the Comprehensive Traffic and Toll Revenue Study for the Detroit River International Crossing Project Forecasting Refresh and Update, submitted to the Michigan Department of Transportation*, May 2010 by Wilbur Smith Associates,

C. Volume of Trade

One of the major arguments in favor a new government bridge is that Canadian-U.S. trade is expanding under NAFTA and Michigan is a hub of this international trade. However, this increase in trade is generally expressed in dollar terms. For example, the Wilbur and Smith study notes that trade between the United States and Canada: "has grown by more than 245% from $243 billion in 1994 to $596.9 billion in 2008." [9] However, when looking at traffic needs, it is not the dollar value of trade that matters, but rather the physical volume of trade.

For example, if trade between the U.S. and Canada switches from coal to computer software, then the dollar volume of trade may rise considerably without any increase in traffic. Canadian exports of energy to the U.S., which totaled over $76 billion in 2009, don't travel by trucks.[10] Thus, estimates of higher dollar volume trade between the U.S. and Canada say little about the need for expanded capacity at border crossings.[11]

D. Economic Indicators

If we look at expanding trade in volume of goods crossing the border, we may want to examine the trend in manufacturing employment as an indicator. Michigan is clearly in a long term decline of manufacturing employment. Manufacturing employment in Michigan has fallen from 896,000 in 2000 to 497,000 in June of this year.[12]

Michigan's real gross domestic product rose by 0.1% in 2007, fell by 4.3% in 2008, fell an additional 5.0% in 2009, while recovering to grow by 2.9% in 2010. Michigan's real gross domestic product has fallen from $377 billion in 2003 to less than $345 billion in 2010.[13]

Michigan will likely continue to recover from its economic downturn, but it was the only state in the nation to lose population over the last decade. The economic data of the past decade certainly doesn't indicate that we are in immediate need for a new crossing, or even that such a need will be arriving anytime soon.

E. Traffic Delays

Traffic delays are easy to track. One can check waiting times one-self at the Ambassador Bridge by going to their web site, www.ambassadorbridge.com, and looking at the live web cam. The Canadian Border Services agency provides wait time at all the border crossings into Canada at their web site, http://www.cbsa-asfc.gc.ca/general/times/menu-e.html. Wait times for crossing into the U.S. can be found at the U.S. Customs and Border Protection site,

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[9] Ibid

[10] See http://www.canadainternational.gc.ca/washington/bilat_can/energy-energie.aspx?lang=eng.

[11] One might also note that the inflation will yield a higher dollar volume of trade even if the physical goods and services remain the same.

[12] Michigan Labor Information Services

[13] United States Bureau of Economic Analysis

http://apps.cbp.gov/bwt/index.asp. Wait times at the government sites are updated hourly, so the interested reader may keep track of wait times at different times of the day.

There have been numerous cites to a Canadian University Study that discusses the costs of delays at the Canadian-U.S. border crossings. This paper, "Border Delays Re-Emerging Priority: Within Country Dimensions for Canada," was recently published in the journal, *Canadian Public Policy*, by Trien Nguyen of The University of Waterloo and Randall Wigel of Wilfred Laurier University.[14] The paper indeed discusses the costs of delays at the Canadian border crossings, but a careful reading of the paper indicates that these delays are not due to a lack of bridge capacity, but are due to border security. The paper has an economic model that estimates the economic cost within Canada of delays. It does not provide any discussion of why delay has occurred other than increased security measures. The thrust of the paper is to estimate the costs of delay rather than to examine why delays have occurred. Most of the examples of delay are from increased security measures after 9/11.

Blue Water Bridge Canada, in its 2008-2009 to 2012-2013 Corporate Plan Summary, discussed traffic congestion on the Blue Water Bridge and noted that, "management is turning its attention towards the Canada Border Service Agency with its manpower shortage and inability to efficiently handle the significant increase in truck traffic coming into Canada."[15] The study does not mention any advantage from an additional bridge or expansion of the existing Blue Water Bridge. Clearly the Canadian government recognizes congestion is a border security capacity issue, not a bridge capacity issue.

State Representative Chuck Moss in a recent article documented the delay he had in crossing the Blue Water Bridge. He concluded that "the bottleneck is not bridge capacity, but customs—US customs."[16] Building government-owned bridges will only alleviate congestion if the source of the congestion is limited carrying capacity of the current bridges and tunnel. However, given the traffic volume data, it would appear that the source of delays is more likely to be a shortage of manned customs booths.

IV. Ambassador Bridge: Private Michigan Company Twin Span

A. History

The Ambassador Bridge is a privately-owned bridge connecting Windsor, Ontario with Detroit. It has been in operation since 1929, and has a reputation for efficiency. An interesting aspect of the Ambassador Bridge is there was a debate at the time of its construction about whether the

[14] Nguyen, T, and Wigel, R., "Border Delays Re-Emerging Priority: Within Country Dimensions for Canada," *Canadian Public Policy*, 2011, Vol. XXXVII, No. 1, pgs. 49-59

[15] Blue Water Bridge Canada, *2008-2009 to 2012-2013 Corporate Plan Summary, Summary of Operating Budget, Summary of Capital Budget*, pg. 3.

[16] Chuck Moss, "Customs-made for Waiting," *The Michigan View*, July 14, 2011

bridge should be a government-owned bridge, this time municipally-owned jointly by the cities of Windsor and Detroit, or should be privately owned.

In 1921, Congress, along with the Canadian parliament, enacted a special act giving a franchise to the Canadian and American Transit companies, predecessors to the Detroit International Bridge Corporation, to build a private bridge. Financing was provided in 1924 by John Bower, a New York business man. The bridge was approved by a vote of people of Detroit in a referendum in June of 1927, over the objections of Mayor John W. Smith, who wanted a government-owned bridge. Final construction of the bridge began just before the expiration of the franchise, in August of 1927. The bridge was opened in November of 1929, nine months ahead of schedule.

The bridge has been privately held since its inception and has become one of the nation's most efficient border crossings. In April of 2002, the Office of Freight Management and Operations of the Federal Highway Administration released a report on crossing delays for commercial vehicles at seven ports of entry. The study is worth quoting:

> Crossing times at the Ambassador Bridge POE are clearly superior and more consistent than any other point of entry in the study. While, like other ports, inbound crossing times exceed outbound crossing times, the margin of difference is significantly narrower and more consistent. Further, lower crossing times are achieved despite the bridge having a consistently higher volume of traffic.[17]

The bridge, when built, was the longest suspension bridge in the world, with a center span of 1,850 feet. Its total length is 7,490 feet and rises 152 feet over the Detroit River. The bridge currently has four lanes of traffic that handle more than 13,000 vehicles per day.

B. Improvements and Commitment to Second Span

Over the years, the company has, all with private funds, made significant improvements to the facility. Most recently there is a $29 million total bridge deck replacement underway. The DIBC has spent $430 million to expand plazas, including additional toll booths, fueling stations, customs facilities, and new bridge approach ramps in preparation for the construction of a second 6-lane span, which has been part of a planned expansion.

As early as 1994 plans were being made for a second span. A Michigan Department of Transportation memorandum of February 6, 2006 cites several earlier references to a second span of the Ambassador Bridge, including a November 1994 letter from then-MDOT Director

[17] Office of Freight Management and Operations, Federal Highway Administration, U.S. Department of Transportation, Evaluation of Travel Time Methods to Support Mobility Performance Monitoring: FY 2001 Synthesis Report, Final Report, April 2002, pg 13.

Patrick Nowak to the president of DIBC referencing consideration of a new span at the existing location.[18]

The new span, which will involve an additional expenditure of approximately $500 million by DIBC, will have three modern lanes in each direction with shoulders and a central median barrier suitable for heavy trucks on a modern cable-stayed bridge. The new bridge will be more economical to maintain and carry more traffic than the existing suspension bridge. It has been planned to have no environmental impact on the river or be an impediment to navigation, since the new span's main towers are designed to be on land.

C. Government Delays

Construction of the second span can be started within two months of completing environmental assessment, and completed within 30 months. Right now one problem is a delay by the U.S. Coast Guard. The Coast Guard must determine if the proposed bridge and piers are an obstruction and if the deck provides enough clearance for shipping to pass safely. In February of 2009 they issued a draft Finding of No Significant Impact. In June of 2009, the Coast Guard then required the DIBC to halt construction of the bridge based upon its questioning of whether DIBC had obtained property rights to certain parcels of land from the City of Detroit.

Given that the Coast Guard's purview is not to determine property rights on the land the bridge will pass over or where the piers will be built and that the Coast Guard has already determined there is no significant impact of the bridge on the river crossing, the completion of the environmental impact assessment should be a simple matter.

It is also interesting to note that in the November 2005 Canadian DRIC Report, the option of a new span at the Ambassador Bridge "was identified as one of the top overall performers on the U.S. side in terms of effectiveness and cost-effectiveness."[19] It is difficult to understand why Michigan officials should not support a new bridge that is cost effective and will be built, funded, and owned by a private Michigan-based company.

V. SB 410 and SB 411: Government-Owned Bridge

A. The Legislation

SB 410 and SB 411 have recently been introduced in the Michigan Senate as a mechanism for creating an authority within MDOT that "may enter into a public-private agreement concerning a crossing and project activity as provided in this act." A project activity is defined as "the research, planning, procurement, design, financing, construction, and improvement for and repair, maintenance, and operation of, a crossing under this act." Crossing is then defined as "a

[18] MDOT Memorandum to Mohammed Alghurabi, Bureau of Transportation Planning from Andrew Zeigler, Metro Region Office, February 6, 2006.

[19] Detroit River International Crossing Study, Generation and Assessment of Illustrative Alternatives Report, November 2005, pg. 127.

public international bridge and bridge approaches…that is at least partially located in a city that, as of the date of the first commencement of a project activity, has a population of at least 600,000 according to the most recent decennial census."[20]

In other words, the bills would create a new government authority that could enter into agreements with private entities for the building and operation of a bridge between Windsor and Detroit. The legislation allows the authority to receive funds from Canada and to enter into a governance agreement for the bridge with a public agency of Canada.

There is language in the bill that would prohibit the authority from entering into an agreement with the Canadian public agency that would impose an obligation on the authority to repay a contribution from any money other than project revenue and project contributions.

It is clear that the bridge will be owned by the government. Section 13(2)(d) states that "the ownership of a crossing within this state is vested in the authority." The authority may select a concessionaire for the project using a competitive process. The agreement with the concessionaire for the "use and operation of the crossing or project activity" shall not be for an initial term of more than 50 years from the date the crossing is open to the public and user fees and charges are being collected. At the end of the initial agreement, the authority can renew an agreement or execute a new one for up to another 50 years.

The agreement may not contain a provision that allows the state or any of its political subdivisions, the Department of Transportation, or an authority to use state funds to make a periodic payment to the concessionaire. Section 27 of the act would prohibit, "except as otherwise provided in this act, this state, the department, the authority, a separate legal or administrative agency created under this act, or a political subdivision" from spending any "state funds for project costs incurred after the effective date of this act."

The authority may issue bonds under the act. The principal and interest of the bonds are to be "payable solely from the authority's share under the governance agreement or the public private agreement of any of the following sources of funds:

(a) Project revenue and project contributions
(b) The proceeds of the bond instruments or of bonds sold to finance the refunding of the bonds
(c) The proceeds of any financial instrument providing credit, liquidity, or security of the bonds described in subsection (6) (these are the bonds issued by the authority)
(d) Investment earnings on any of the sources of funds described in subdivisions (a) to (c)."

In addition to this language, Section 17(1) states that "The bonds are not a debt, moral obligation, or a liability of this state or any political subdivision of this state and do not constitute

[20] SB 410 contains the operative language. SB 411 amends the Michigan Transportation Fund law to include the entity created under SB 410, allowing the new authority to receive distributions from the Transportation Fund.

or create any indebtedness, liability, or obligation of this state or any political subdivision of this state. Bonds authorized under this act are not a pledge of the full faith and credit of this state or any political subdivision of this state."

An interesting aspect of the package is that SB 411 adds the proposed new bridge authority to the list of governmental agencies eligible to receive funds from the Michigan Transportation Fund under Public Act 51 of 1951. This adds another dimension to the argument that taxpayer funds will not be part of the NITC.

B. The Issue of Legislative Oversight

The new authority will exercise its functions independently of MDOT. There are a myriad of powers granted to the authority, including the ability to receive revenues from the Canadian government, set and receive toll revenues, issue bonds, determine the location, design, standard, and construction materials of a crossing, and enter into a governance agreement with a Canadian authority. Its ability to enter into agreements with a concessionaire would allow the authority to determine for a century the management of the proposed bridge.

The new authority will have substantial powers that are not within the oversight of the Legislature, other than the five members of the board of the authority must be approved by the Senate. One of the members must come from a list of names submitted by the Senate Majority Leader, and one from a list of names submitted by the Speaker of the House.

The authority, at the request of a private entity, could acknowledge as confidential and exempt from disclosure proprietary commercial or financial information provided as part of the proposal, making it difficult for the Legislature to oversee the authority's decision on how vendors are selected.

This would not be at issue if the NITC were a private enterprise subject to the responses of the market place and risking its own funds in the process. However, since there is the likelihood that the State will effectively stand behind the debt obligations of the authority, this creates one more reason to question the project.

C. Statutory Language and Specific Proposal

There are a number of issues that the proposed legislation brings up. First, while the language is general, it is designed for a specific proposal for a government-owned bridge to be built at a specific location. This leads to concerns about the specific proposal, such as whether revenues from the tolls will be sufficient to induce an investor to buy the authority bonds.

Second, once the legislation is enacted, is the language so broad that a project very different from that being discussed might be enacted?

Third, will the language result in the protection of the taxpayer that is being discussed? For example, although the legislation precludes state tax dollars from being spent on the project, should additional funds be needed to complete the project or to operate the project, is it possible or likely that amending legislation would be enacted to allow the spending of taxpayer funds.

The specific proposal is for the creation of the New International Trade Crossing, (NITC) at a point about 1.9 miles south of the current Ambassador Bridge. The NITC would have toll plazas on both sides of the border and cross into Detroit in the Delray neighborhood. The Canadian government will build a connector from H401 to the NITC and a plaza. Michigan would build an interchange to connect to I-75, connector roads, and toll and inspection plazas.

D. Project Costs—Largest MDOT Project Ever Undertaken

The NITC would be by far the largest project ever undertaken by MDOT. Estimates for the cost of the NITC project are a total of about $3.8 billion, broken down in Table 5.

Table 5
Costs of NITC Project in Millions of US Dollars

I-75 Interchange	US Customs Plaza	Bridge	Canadian Plaza	W-E Parkway
385.9	413.6	949.1	387.6	1,670.0

Source: Michigan Department of Transportation, "Report to the Legislature of the State of Michigan Responding to Public Act 116 of 2009, Section 384," May 1, 2010, pg. 21

The proposal is that the Canadian government will provide up to $550 million to fund the I-75 interchange and Michigan's share of the US Custom's Plaza (which would be $150 million). The U.S. Government Services Administration would pay for the remainder of the US Customs Plaza. Canada would fund the Canadian Plaza and the Windsor-Essex Parkway extension to connect H401 to the Canadian Plaza. The bridge would be funded by the issuance of bonds, the principal and interest of which would be paid by the concessionaire.

E. Economic Viability of the Project—Traffic Volume Forecasts

There are a number of issues that are raised with regard to this specific proposal, the first of which is the economic viability of the crossing. Section III has discussed the traffic flow projections given the last decade of traffic drop off. Is it likely that financing will even be available for the bridge?

The traffic flows, which are crucial for toll revenue estimates, in the Wilbur Smith study prepared for MDOT, are substantially higher than previous studies prepared for the Federal Environmental Impact Statement. For example, Wilbur Smith assumes a 4.3% annual growth rate for commercial vehicles, which are crucial to revenues due to their much higher tolls, for the period 2009-2035. The Wilbur Smith study assumes truck revenues will be 80% of revenue

throughout most of the forecast period.[21] The earlier FEIS study assumed a growth rate for trucks of only 2.7% over the period 2004-2035.[22]

The Wilbur Smith study forecasts a sharp increase in commercial vehicle crossing up until 2015 of 10.2% annually, with a strong annual growth of 3.1% between 2015 and 2025. Given the economic data of Section III, this seems overly optimistic. A 2002 study by J.P. Morgan analyzed twenty-two new toll facilities and found that, on average, toll revenue was only about 60% of projected revenues for these facilities. In 19 of the 22 cases, actual toll revenue was less than projected based on the first two to five years of operation.[23] Unless there is a substantial and immediate turnaround in traffic volume, the Wilbur Smith study is very likely to fall into this category.

F. Economic Viability—Efficient Use of Resources

Imbedded in the question of the economic viability of the project is the basic question of whether the value of the resources expended in producing the project will be equal to the value that consumers are willing to pay for the product. Any private sector business would need to make this calculation. This, of course, is one thing that distinguishes a privately-owned project from a government-owned project. The government project need not consider such a question.

In a book published by Cambridge University Press, Bent Flyvbjerg and two coauthors found that so-called "megaprojects" often retard rather than enhance economic performance. They observed that: "it is becoming clear that many such projects have strikingly poor performance records in terms of economy, environment and public support. Cost overruns and lower-than-predicted revenues frequently place project viability at risk and redefine projects that were initially promoted as effective vehicles to economic growth as possible obstacles to such growth."[24]

In order to look at the true economic viability of the proposed NITC, we would need to know if the toll revenue would be sufficient to pay the entire cost of the project, $3.8 billion. Much of the discussion has been whether tolls would be sufficient to pay for the bridge construction and operation, a much smaller number as the bridge construction is only about one-fourth of the project cost. Arguments that toll revenue would be sufficient to cover bond payments and operating expenses only for the bridge ignore a large amount of economic costs of the project.

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[21] Wilbur Smith pg 6-27.
[22] ICF International Memorandum to Paula Lombardi, May 17, 2010.
[23] JP Morgan Municipal Credit Monitor, "Start Up Toll Roads: Separating Winners from Losers," May 10, 2002.
[24] Bent Flyvbjerg, et al., *Megaprojects and Risk: An Anatomy of Ambition* (Cambridge: Cambridge University Press, 2003), pg. 3.

G. Economic Viability—Operating Costs and Debt Obligation

Even if one only looks at the principal and interest rate payments on the $949 million needed to cover the costs of the new bridge, the project would need to cover interest payments alone of $91.7 million annually. This assumes a 25 year loan at 8.5% interest, which may be a low interest rate given that only toll revenues may be used to pay principal and interest on the debt. To put this in perspective, revenues for the Ambassador Bridge were approximately $60 million in 2009 according to the Wilbur Smith Report Summary of June 2010.

The baseline revenues for the NITC are forecast by Wilbur Smith to be $70.4 million in 2016, rising under the assumption of strong truck volume growth to $123.5 million by 2025.[25] Given there will be operating and maintenance costs of perhaps $20 million per year [26] in addition to the payment of principal and interest on the bonds, if the Wilbur Smith traffic estimates turn out to be overly optimistic, it will be quite possible that the bridge will be operating with negative cash-flow which puts at question the ability to finance even the bridge portion of the project through sale of bonds to the private sector.

H. Economic Viability—Existing Crossing Effects

A major consideration in the economic feasibility of the proposal is its effect on the existing crossings. The proposed bridge would not make economic sense if the revenue from tolls met the operating costs and capital by draining enough resources from the other crossings that they become unviable. For example, the *December 2008 Final Environmental Impact Statement for a Detroit River International Crossing (DRIC)* estimates that by 2035 there will be a 16 to 18 percent decline in peak hour truck traffic on the Blue Water Bridge with the introduction of DRIC by 2035, and a 7% decline in auto traffic overall. The Detroit-Windsor Tunnel, which is jointly owned by the cities of Detroit and Windsor, would suffer a 20 to 26 percent decline in total traffic, and the Ambassador Bridge would have a 37to 39 percent reduction in car traffic and a reduction of 75% of its truck traffic. [27]

According to the Wilbur Smith study, from 2016 through 2035, market shares for the Ambassador Bridge, Blue Water Bridge, and Detroit-Windsor Tunnel are expected to decline by approximately 44%, 23%, and 22% as a result of traffic shifting to the NITC. In 2016, about one-third of the NITC traffic volume will be from shifting traffic from one government-owned entity to another.

The effect on the Ambassador Bridge is to drive down revenues from an estimated $94 million in 2015 to $57 million by 2020, with revenues not recovering to 2015 levels until sometime after

[25] Wilbur Smith June 2010, pg. S-2.
[26] See "A Peace Plan for the War at the Detroit River Crossings US-Canada", *TOLLROADSnews*, March 28, 2010
[27] FEIS pg 3-60.

2040.[28] Clearly a major part of the revenue for the new government-owned bridge will come from displacing revenue from the private bridge.

Given that the Blue Water Bridge was expanded thirteen years ago at a cost of $41.3 million for the Michigan share, and there are plans to expand the customs plaza at a cost of $110 million, the effect of the drain of traffic from the Blue Water Bridge should certainly be a consideration in the economic efficiency of a new government-owned bridge.

It is also important to note that there are plans for a $400 million expansion of the Detroit Windsor Rail Tunnel.[29] The Windsor Port Authority, along with Borealis Infrastructure, a division of the Ontario Municipal Employees Retirement System (OMERS), and Canadian Pacific (CP) have formed the Continental Rail Gateway coalition (CRG) to pursue opportunities for the development, funding and construction of a replacement rail tunnel under the Detroit River. Environmental Reviews began with the state of Michigan and the Army Corps of Engineers in 2009. The high-clearance replacement rail tunnel will allow double-stacked container trains out of the Port of Montreal to use the Montreal/Windsor/ Detroit/Chicago corridor. This will draw truck traffic from the existing vehicle crossings and further undermines the projections of the economic viability of the NITC.

Since the effects on the Ambassador Bridge traffic are projected to be substantial, it is likely that the Ambassador Bridge will respond with reductions in its tolls. This will affect revenue of all crossings and a price war could lead to the failure of the Ambassador Bridge with the net effect of the new bridge being to replace a privately-owned bridge with a government-owned bridge. It might lead to the continued existence of the Ambassador Bridge and the failure of enough toll revenues to materialize on the government-owned bridge to lead to a default on the new authority bonds. It could lead to further reductions in state revenue at the Blue Water Bridge, or further loss in revenue to the cities of Detroit and Windsor at the tunnel.

It is important to note that the Ambassador Bridge is a tax-paying entity, including property taxes and state and federal corporate income taxes. It must finance its expansion with unsubsidized private funding. Yet the proposal is to have a government-owned bridge locate two miles away. In an interview with Jeff Wattrick of MLive.com, Roy Norton, Consul General of Canada based in Detroit, stated, when asked what would happen toll revenues were not sufficient to repay the Canadians the $550 million, "The government of Canada assumes all liability associated with that money."[30]

This could create a scenario where the government bridge reduces its tolls, perhaps for the same political reasons that led the state to subsidize tolls at the Mackinac Bridge, and push the risk that

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[28] Ibid., table on page S-3.

[29] "New Windsor-Detroit Rail Tunnel Proposed," CBC News, June 17, 2010

[30] Jeff Wattrick, "Roy Norton Interview: Politics at the United States' and Canada's Busiest Border Crossing, Part 2," Mlive.com, August 3, 2011.

toll revenues would not be sufficient to meet all of its obligations onto the Canadians. The end result could be the elimination of the private bridge and its replacement with a bridge majority-owned by a Canadian authority.

There will likely be further short term effects on the Ambassador Bridge and Detroit-Windsor Tunnel traffic due to disruptions of traffic on I-75 as a new interchange to connect with the proposed plaza is constructed. Traffic may be disrupted along I-75 for several months, resulting in avoiding the use of the proposed new bridge as well as the Ambassador Bridge and the tunnel. These effects must be seriously considered as additional costs of the NITC project.

VI. Risk to Michigan Taxpayers

A. Requirement to Pay Back Canadian Contribution

As noted above, the proposal is that the Canadian government will provide the funding of up to $550 million for the construction of the I-75 interchange and Michigan's share of the plaza. However, there is some question about what this promise entails. A 2010 letter to Governor Granholm from Canada's former Minister of Transport stated "Amongst other terms to be negotiated to the satisfaction of both Canada and MDOT, Canada would expect repayment from the anticipated toll revenues to be derived from operation of the bridge."[31] A January 2011 article entitled, "Canada—Let's Be Clear Our Detroit Bridge Money is Not a Loan to Michigan," quotes the Canadian Minister of Transport, Infrastructure and Communities as saying that the $550 million would be paid back through toll revenues and until it was paid back Canada would have a larger equity stake in the new bridge authority.[32]

Is the Canadian money, if it does in fact materialize, a loan to Michigan, or is it envisioned to be a loan to the newly created authority, which is a government authority housed within MDOT? It is difficult to see how this is to be arranged, since the $550 million is to be used by MDOT for its share of the expenses of for new plaza and its connection to I-75. However, the payback of the $550 million will have to be made through toll revenues from the bridge, and this will put more pressure on the toll revenues needed to pay principal and interest on the bridge bonds. This may well affect the ability of the authority to find private financing for the bridge.

B. Will Taxpayers be at Risk for Authority Bonds?—Mackinac Bridge History

There is the question of whether the state taxpayers will be at risk should the bridge revenues not be sufficient to make the principal and interest payments on the loan. Much has been made that the authority bonds are not obligations of the state and SB 410 makes this clear. The bill also indicates that the state has no moral obligation to make payment to bondholders. However, as the federal bailout of Fannie Mae and Freddie Mac illustrates, there can be many a slip between lip and cup in these issues of moral obligation.

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[31] Letter from John Baird, P.C., M.P, to Governor Jennifer Granholm, April 29, 2010.
[32] *Crane's Detroit Business*, January 28, 2011

The history of the Mackinac Island Bridge Authority should give pause to the idea that Michigan taxpayers will not be at risk. In 1950 the Michigan legislature passed legislation creating the Mackinac Bridge Authority.[33] Public Act 214 of 1952 authorized the authority to construct and maintain a bridge and to issue revenue bonds. The debt of the authority was not to be an obligation of the state and was secured by tolls. The next year the legislature amended Act 214 to provide an annual "advance" of $417,000 for bridge operations in order to make the bonds more attractive.[34] The advances lasted through 1985 and totaled $12.306 million, none of which was repaid to the State.[35]

In 1967, the legislature authorized an annual appropriation to the Mackinac Bridge Authority of $3.5 million to be dispersed every January from 1969 through 1986.[36] This appropriation was to be used to pay the principal and interest on the bonds issued by the Authority. A total of $63 million was given to the Authority, and only $11.75 million was repaid by September 30, 2010.[37] This history does not bode well for claims that the NITC will not receive taxpayer funds.

C. Will Taxpayers be at Risk for Authority Bonds?—Other State Authority Debt

Aside from past history, the large special authority debt of the State indicates taxpayers would bail out the NITC Authority if revenues were not sufficient to meet debt obligations. Michigan has several bond authorities that issue debt that is not general obligation debt of the state of Michigan. For example, the Michigan State Building Authority was organized under Public Act 183 of 1964. Other authorities include the Michigan State Hospital Finance Authority and the Michigan Municipal Bond Authority. Ten of these authorities were consolidated under the Michigan Finance Authority under Executive Order 2010-2. In Fiscal Year 2010 the non-general obligation debt of the State was in excess of $22.7 billion.[38]

Imagine that toll revenues from the bridge are not sufficient to make principal and interest payments on the new bridge authority debt. Do we really believe that the state would let the bridge authority debt go into default and risk the rise in interest rates that would occur on the remaining state authority debt? Is it not much more likely that despite the statutory language to the contrary, that the state would provide the funds to meet the debt obligations rather than see if a contagion spreads across all Michigan special authority debt?

Helen Borgess, an associate assistant deputy minister with Transport Canada, testified before the Senate Economic Development Committee on June 15, 2011, that the Canadian government

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[33] 1950 (Ex Sess) PA 21.
[34] The language actually allowed for a subsidy of up to $417,000. 1953 Act 141.
[35] Michigan Office of the Auditor General, *Financial Audit of the Mackinac Bridge Authority, October 1, 2008 through September 30, 2010*, pg. 25.
[36] 1967 PA 5.
[37] Michigan Office of the Auditor General, op. cit.
[38] Data kindly provided by Michigan Department of Treasury. August 2, 2011.

would stand willing to bear the financial risk of a bond default.[39] However, the terms of such a guarantee are not part of the legislation, nor can it be assumed that these terms will be agreeable to the Michigan taxpayers or to future bondholders.

D. Cost Estimate Uncertainty—Academic Study and Zilwaukee Bridge

It is certainly reasonable to be concerned about the effect of cost estimates on the financing of the NTIC. A study of 258 transportation projects across 20 nations published in 2003 *Transport Reviews* found: "Substantial cost escalation is the rule rather than the exception." [40] The Boston bridge and tunnel project went from a $2.8 billion estimate to a final cost in excess of $22 billion.

For a Michigan example one need look no farther than the Zilwaukee Bridge over the Saginaw River. Work began on the bridge in 1979 with a $79 million budget and was expected to be completed within three years. It ended up being completely open for traffic in 1988 with a cost of $127 million. In 2008 there was a problem with installing steel bearings, with increased costs that led to a six month closure of the northbound lanes.[41] Even more recently, on June 3, 2011, it was reported in the *Macomb Daily* that MDOT spent $2.1 million on 34 bearings for the Zilwaukee Bridge that won't be used.

E. Cost Estimate Uncertainty—Potential Unexpected Geology Problems

The proposed location of the NITC adds to the uncertainty of cost estimates. The site for the bridge and plazas are within an area that according to a Michigan Department of Transportation memorandum has been historically mined for salt and the type of mining can result in sinkholes. The memorandum states that collapses of the rock structure from mining "have caused sinkholes in some of the areas included in the DRIC study." The memorandum states that foundation materials for the bridge are "a very important component of the structure. The lack of experience, knowledge of materials, and failure mechanisms associated with salt mine cavern failures make it improbable that a reliability based design can be done if the foundations of the bridge are placed within the influence of a salt mine cavern."[42]

In response, a bi-national Geotechnical Study Group concluded that there are no subsurface features or conditions that might affect the bridge foundations.[43] Nonetheless, the possibility of

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[39] Reported at http://buildthedricnow.com/2011/06/17/nitc-senate-committee-hearing-%E2%80%93-day-one-canadian-government-reaffirms-bridge-funding-guarantee/

[40] Flyvberg, B., et al., How Common and How Large are Cost Overruns in Transport Infrastructure Projects?" Transport Reviews, 2003, Vol. 23, No. 1, pgs. 71-88. See also, Flyvberg, et al., "Underestimating Costs in Public Works Projects; Error or Lie?" Journal of the American Planning Association, 2002, Vol. 68, No. 3, 279-295.

[41] Saginaw News, "Two Years Later—MDOT Still Investigating Zilwaukee Bridge Maintenance Mishap that Closed Span for Months," November 28, 2010.

[42] MDOT Office Memorandum, To John Friend and Brenda O'Brien from Larry Tibbits, Chief Operations Officer, January 27, 2006.

[43] Ontario Ministry of Transportation, News Release Communiqué, March 3, 2008.

cost overruns is made more likely given the location of salt mines in the area of the proposed crossing.

In addition, British Petroleum uses nine salt caverns for the storage of liquefied petroleum gas and the Cochin pipeline which moves propane and butane to and from US markets is in the area near the proposed site of the Canadian plaza. This may raise further concerns about the safety of the proposed bridge site.

F. Cost Estimate Uncertainty—Delray Neighborhood Costs

In addition, the proposed project would require the removal of 257 homes, 43 businesses and 9 nonprofit organizations in the Delray neighborhood on the Detroit side of the crossing.[44] There is needed discussion of how the state will handle this disruption. Tom Jay of MDOT, at the February 23, 2011 NITC Project local advisory council meeting at Southwestern High School, stated that once legislation was passed MDOT can begin the process of purchasing properties already identified in the footprint of the project.

The Legislature should understand whether the costs of properties in the pathway of the project, relocation of Delray residents, litigation costs, and other unanticipated costs related to Delray will be covered by the State and whether this is included in the estimated costs of the bridge and plaza. This should also include costs of the so-called "community benefits agreement" that has been discussed as part of the NITC project.[45]

VII. Federal Match for Canadian Funds

A. Economic Inefficiency of Using Canadian Match

Much has been made about a deal that Michigan has made with the federal government to allow the $550 million that will be forthcoming from the Canadian government to be used as Michigan's matching funds for the purposes of obtaining federal highway trust fund money.

This raises several questions. First, from an economic efficiency standpoint, the fact that money spent on the construction of a new bridge can be used to obtain federal taxpayer dollars for Michigan highways is likely to lead to an inefficient allocation of resources. By allowing this spending, Michigan is induced to use up resources to build a bridge that are less than the value to consumers since the cost of the bridge to Michigan is artificially reduced by the grant from other taxpayers. It is as if the federal government gave you $10 for every dollar you spent on chocolate milk. You would have an incentive to buy chocolate milk well beyond the value to you of one dollar of the milk. In fact, you might be tempted to simply buy chocolate milk and pour it down the drain to receive the federal money.

[44] "Delray Seeks Help in New Deal for a Detroit River Bridge," Detroit Now, WCHB AM, March 30, 2010.
[45] "Governor Snyder Takes Case for New Bridge to Delray Area of Detroit," *Detroit Free Press*, July 27, 2011.

B. Spending on NITC cannot increase Michigan's share of federal funds; can at best provide a limited unleveraged contribution

The amount of federal funds available for Michigan is set in the Surface Transportation Reauthorization Bill now under consideration by Congress. (In fiscal year 2010 the federal funding for Michigan was a little less than $1.1 billion.[46]) The only way that Canadian money could increase the money Michigan receives is if Michigan were unable to spend enough money on eligible projects to obtain its full federal match. Given that Michigan has never failed to spend enough to receive its full federal funding, and that no state has failed to meet its full match since 1991, this seems an unlikely scenario. Moreover, Michigan has several other means at its disposal for meeting its federal match, such as unrealized toll credits and changes in state taxes, such as those proposed in SB 351.

Michigan raises about $1.8 billion in its Transportation Fund annually, so clearly the state could spend $300 million on eligible projects.[47] If the state were not able to fund its match by spending on eligible projects, there are several ways to meet its match. The most obvious way is to move spending from ineligible projects to eligible projects. The Canadian money would then at most replace the funds which were diverted from the ineligible projects, and thus there is no multiplied effect from Canadian funds.

It is possible that the needed federal match will be even lower to the extent expenditures are made under the Interstate Maintenance Program, as these funds are matched at a 10:1 ratio. This would reduce the amount of money Michigan would have to spend to receive its full federal funding and even further reduce the chance that the Canadian money could provide a benefit in obtaining federal funds.

Another point, as noted in Section I, is that 23 USC Section 120(j) allows a state to use certain toll revenue funded expenditures as credits for federal matching funds. The Ambassador Bridge provides credits that Michigan uses for federal matching funds, and toll revenues used to pay for the second span that DIBC would privately fund would qualify as they are capital improvement to build or maintain a bridge. MDOT has included $50 million of Ambassador Bridge toll credits in the next fiscal year's budget.

C. Uncertainty of Federal Match

It is possible that before the $550 million is spent and used for federal match that the federal funding formula could change or federal appropriations decline enough that there will be no additional federal funding coming from the Canadian contribution because the state will easily

[46] U.S. Department of Transportation, Federal Highway Administration, Notice: Apportionment of Fiscal Year 2010, Pursuant to the Surface Transportation Extension Act of 2010, Title IV of Public Law 111-147, April 20, 2010.
[47] Michigan Department of Treasury, *Annual Report of the State Treasurer: Fiscal Year 2008-09*, Table 4.

meet its spending threshold.[48] The former director of the Michigan House Fiscal Agency, Mitch Bean, recently stated that "We can't expect any help from Washington. Washington has its own revenue problem, and deficit reduction will mean less money for the states, not more."[49] It is certainly possible with the completion of the interstate highway system that funding formulas may change enough that the federal match may be less than what has been anticipated.

The Safe, Accountable, Flexible, Efficient Transportation Equity Act, A Legacy for Users (SAFETEA-LU) expired on September 30, 2009 and has been extended on a short term basis ever since. While the House recently passed a further extension through March 2012,[50] there have been discussions that the extended reauthorization of the bill will result in an apportionment decrease for states of up to 35%. In this case the Canadian funds will certainly not result in any additional federal funds.

A recent article in the *Washington Post* supports the point that there is considerable uncertainty about the amount of funds state transportation agencies will receive. Susan Martinovich, president of the American Association of Highway and Transportation Officials is quoted as saying that if the cuts proposed by the House become law, "States may need to stop or decrease maintaining a third of their highways."[51]

It is also not clear that the spending on the plaza will be able to occur. The plan is for the federal government to provide the $260 million in federal funds needed to complete that portion of the project. With the reluctance of this Congress to provide earmarks and President Obama's criticism of them, the possibility of earmarks to provide the project seems small.[52] Currently the federal government has not made widely public any commitment to fund the project.

The example of the Blue Water Bridge customs plaza project may be illustrative. The expansion of the plaza began as a $433 million expansion. It was to be a 65-acre plaza within a 131-acre site. After ten years the plans are for a 16-acre plaza expansion at a plaza cost of $110 million.[53] As *The Voice* put it a recent article, "Now it looks like the federal government cannot afford the security it said it needed even as late as last year."[54]

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[48] In a letter to Senator Mike Kowall, Chairman of the Michigan Senate Committee on Economic Development, dated June 14, 2011, Ray Lahood, Secretary of Transportation, wrote that "My Department will allow this funding to be used as matching funds for eligible Federal-aid highway work once the State accepts it." However, states make expenditures on eligible projects and then are reimbursed for these expenditures.

[49] Mitch Bean, "Focus on State Trunklines Could Help Road Funding Woes," *MIRS News*, August 1, 2011.

[50] U.S. House of Representatives, Transportation and Infrastructure Committee, News Release, September 13, 2011, http://transportation.house.gov/News/PRArticle.aspx?NewsID=1391.

[51] "States dread new standoff over transportation funds," *Washington Post*, August 24, 2011, pg. A17.

[52] "Obama Signs Spending Bill, Vowing to Battle Earmarks," Washington Post, March 12, 2009, http://www.washingtonpost.com/wp-dyn/content/article/2009/03/11/AR2009031101499.html.

[53] There would be an additional $170 million in upgrades to the I-69 and I-94 exchanges.

[54] . See "Blue Water Bridge Project Shrinks by More Than Two-Thirds," *The Voice*, Sunday, August 28, 2011.

This example also points out how MDOT has a tendency to get ahead of itself when relying on federal funding. In anticipation of the larger plaza MDOT purchased 125 homes and 16 businesses, most of which have been razed. The city of Port Huron lost 2% of its tax base and more than one hundred families were disrupted due to the decision to move forward on a bridge plaza project that could not be completed. Moving ahead on acquiring property in Delray that may suffer the same fate as Port Huron would use up money that could otherwise have been spent on road and bridge renovation that is more crucial to the state's infrastructure needs.

The Port Huron example certainly should raise questions about giving MDOT permission to embark on a $3.6 billion project that relies on funding from both the U.S. and Canadian governments. Given the recent legislation that increased the federal debt limit, it is possible that substantial reductions in discretionary spending will occur. Relying on federal funds to make a government-authority bridge financially viable is particularly suspect under current economic and political conditions.

VIII. Legal Concerns: Is DRIC Constitutional?

In 2010, Distinguished Professor of Law at Wayne State University, Robert Sedler, testified before the Transportation Committee of the Michigan Senate that the 1921 Special Act of Congress gave the Ambassador Bridge an exclusive franchise for a bridge over the Detroit River connecting Detroit and Windsor, and that a bridge other than one built by DIBC would need to be "specifically authorized by a new Act of Congress."[55]

Professor Sedler further argued that the 1972 International Bridge Act that allowed the U.S. Secretary of State to approve some state-Canadian bridge agreements did not allow encroachment on the exclusive franchise of the Ambassador Bridge.

It is not the purpose of this paper to render a legal opinion regarding the ability of the State of Michigan to enter into an agreement with Ontario, Canada, to build a bridge without approval of the United State Congress. Nonetheless, the issues raised by Professor Sedler add more uncertainty to an already uncertain project.

IX. Public versus Private Sector Bridge

A. The Information Problem

Economic theorists have long maintained the advantages of private enterprise and free markets. With his classic 1920 study, *Socialism,* Ludwig von Mises began what is known in the

[55] Statement of Professor Robert Sedler Before the Transportation Committee of the Michigan Senate in Regard to HB 4961 and Proposed Arrangement Between the State of Michigan and Transport Canada to Build Another Bridge over the Detroit River Between Detroit, Michigan and Windsor, Canada.

economics profession as the "calculation debate."[56] Mises argued that information is so decentralized that a central planner could not possibly gather and process the information necessary to make efficient use of resources in a modern economy. Mises was joined in the 1930s by future Nobel Prize–winning economist Friedrich Hayek, who focused on the use of decentralized knowledge in his famous 1945 American Economic Review paper, "The Use of Knowledge in Society."[57] Hayek was concerned with how to make the best use of decentralized knowledge and came to the same conclusion as Mises—it is not possible for a central planner to make fair and efficient use of resources due to his or her inability to know (a) how each member of society values goods and services relative to one another and (b) how resources may be best used in satisfying the wants of all consumers in society.

Mises and Hayek laid out how the market system of prices set by consumer demand and producer supply in a system of voluntary exchange will ensure that resources go to their highest and best use. In fact, Hayek wrote that if markets had been invented they would have been one of the Seven Wonders of the World. As the market system evolved over time, it became the dominant economic system because of its ability to produce so efficiently and create wealth for the masses.

B. Public Choice Theory and International Trends

During the 1950s and 1960s the neo-classical economists, or Chicago school, led by economists such as Nobel laureate Milton Friedman, continued to argue for market allocation of resources and limited government involvement in the economy.[58] Founded by another Nobel Prize–winning economist, James Buchanan, Public Choice theory pointed out the failings of the political system and argued for a limited government role in the economy.[59]

By 1989, the collapse of the Berlin Wall gave the high ground to those supporting the "spontaneous order" of the market and seriously set back the influence of those who believed government ownership of resources could improve the standard of living of the poor and provide for a more efficient use of resources. China, India, Russia and the majority of former centrally planned states have moved toward market allocation of resources, recognizing the vast improvement in production compared to a system of government ownership. As Thomas Sowell

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[56] Ludwig von Mises, *Socialism: An Economic and Sociological Analysis*, translated by J. Kahane (London: Jonathan Cape, 1936, 1932). For a discussion of the calculation debate, see George Reisman, *Capitalism* (Ottawa, Illinois: Jameson Books, 1996), 279-82.

[57] Friedrich Hayek, "The Use of Knowledge in Society," *American Economic Review*, vol. 35, no. 4 (Sept. 1945): 519–30.

[58] See his classic *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962) which was followed by *Free to Choose: A Personal Statement* (New York: Harcourt Brace Jovanovich, 1980).

[59] The classic work in this area is James Buchanan and Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Ann Arbor: University of Michigan Press, 1962).

has pointed out, "As markets replaced politically managed economic decision-making, China experienced one of the highest economic growth rates in the world."[60]

The thrust of this academic literature is that government planners cannot possibly have the information necessary to determine how consumers relatively value the use of resources nor are the incentives of the political structure such that resources are likely to be used efficiently.

C. Incentive Differences between Public and Private Sector

In this particular case, it is much more likely that a second span built by the privately owned DIBC will result in an efficient use of resources than a government-owned bridge. Should the private bridge not be able to generate enough revenue to cover the cost of a second span, then the owners will have their own money at risk. Should government planners be wrong about the ability of toll revenues to cover the cost of a new government bridge, their own money is not at risk. Indeed, it may be well after the bureaucrats have left their office or position before the economic consequences for tax payers are discovered.

The NITC has been touted as not really a government project, but rather a public private partnership. The implication is that this is equivalent to a private sector project. However, a moment's reflection will show the difference.

The NITC will be owned by a government agency, the authority created under SB 410, and a Canadian government agency. As such, even if a private company operates the bridge under a contract, the incentives with regard to the size, construction, and operation of the bridge will be political rather than economic. Many state government buildings are technically owned by the State Building Authority and the construction was financed by State Building Authority bonds purchased by the private sector. We do not speak as if these buildings are part of a public private partnership. The proper incentives for an efficient use of resources in building a new crossing only occur with a private bridge.

X. Conclusion

A. Permit Ambassador Bridge Expansion and Set Aside NITC

There are a number of reasons to set aside the NITC and allow the DIBC to build a new span at the Ambassador Bridge site. The traffic studies that call for an additional bridge are certainly questionable given prior history of traffic volume estimates and the last decade of actual traffic flow. No investment grade study has been completed as of this writing. It is more likely that the second span of the Ambassador Bridge will handle any increased traffic flow than that a new government-owned bridge will be needed.

Delays, to the extent they do occur, are primarily due to lack of capacity of the government security. The best example is that it is the plaza at the Blue Water Bridge that has been

[60] Thomas Sowell, *Applied Economics: Thinking Beyond Stage One* (New York: Basic Books, 2004), 22.

overwhelmed and is now being expanded while traffic volume declined after the twinning of the span.

In the case of the Ambassador Bridge, delays are caused by the approach on the Canadian side. Currently trucks must pass through at least 17 traffic lights. Improvements to the Canadian approach to the Ambassador Bridge should be pursued well before a new government-owned bridge is constructed. This would be consistent with the Canadian government's earlier commitments to the Windsor Gateway.[61]

B. Ambassador Bridge Span Less Expensive

The Ambassador Bridge second span is less expensive than the proposed new government owned bridge for a number of reasons, not the least of which is that the length of the bridge span needed is shorter. The main span of the NITC bridge has to be about 25% longer than the Ambassador Bridge new span because the river is wider at the NITC site.[62]

The connections on the U.S. side from the Ambassador Bridge to the I-75 and the I-96 and the toll inspection plaza facilities have already been built as part of the $230 million Ambassador Bridge Gateway Project. As noted in Section V, on the US side, the I-75 interchange will cost $385.9 million and the new plaza will cost $413.6 million. These costs will be saved by building a second span of the Ambassador Bridge rather than building a government-owned bridge and necessary infrastructure.

The costs on the Canadian side could be limited to extending the Windsor-Essex Parkway from H 401 north from the planned location of the NITC Canadian plaza to link in to the Ambassador Bridge Canadian Plaza on Huron Church Road. This would require another 3 kilometers (slightly less than 2 miles) of the Parkway. According to *TOLLROADSnews*, there is "a wide reservation on either side of a(n) infrequently used freight rail branch line that provides a right of way for the WS Parkway Connector extension." *TOLLROADSnews* estimates the cost of the extension at less than $500 million.[63] This is less than the Canadian government has suggested it would loan to the new bridge authority to assist in adding to the interchange and plaza on the American side that would be needed by the NITC.

C. The Sensible Approach

The most sensible approach is along the lines suggested by *TOLLROADSnews*. The U.S. Coast Guard should stick to its mandate and proceed with the application process for the Ambassador Bridge to build its second span and the Canadian government should complete the needed environmental process as well. The new span will add at least 50% to the carrying capacity of

[61] Infrastructure Canada, News Release, "Canada and Ontario Announce Next Steps at Windsor Gateway," May 27, 2003.
[62] See footnote 26, supra.
[63] Ibid

the bridge, 3X3 lanes rather than 2X2 lanes. The I-75 and I-96 connections are already in place along with the customs plaza due to the Gateway Project.

The Canadian government should complete the Windsor-Essex Parkway and an extension to the Ambassador Bridge. If sometime in the future traffic demand increases enough to give solid evidence of a return to 1999 levels and steady growth from there, the plans for a new bridge can be brought forth.

The new span of the Ambassador Bridge can be complete within 30 months of completing the environmental application process by the Coast Guard and the Canadian government. Should the need for an additional bridge become obvious, then the best solution will be for the U.S. and Canadian governments to do what they did in 1921 and to allow private firms to bid for a franchise to build a privately-owned bridge.

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Do we need another government bridge?

My View

By Gary Wolfram **Hillsdale Daily News**

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If the New International Trade Crossing (NITC) were a private operation, it would have to earn enough revenue to pay for the bridge and the necessary infrastructure, such as the toll plazas and connections to the existing highway system. No one has suggested this is possibly going to be the case. In fact, there is a real question whether tolls from the NITC will be able to pay for just the bridge, ignoring the $386 million it will cost to connect it to I-75 on the U.S. side and the $413 million it will cost for the new customs plaza on the US side, and the $387 million the Canadian customs plaza will cost and the $1.67 billion cost of the extension of the Windsor-Essex Parkway.

Even if we ignore the hundreds of millions of dollars of costs for the attendant infrastructure, why do we think a new bridge is needed and can be paid for by tolls? Traffic at the Detroit-Windsor Tunnel is down from 9.61 million crossings in 1999 to only 3.61 million in 2010. The Blue Water Bridge, which had a twin span completed in 1998, has seen traffic volume fall from its peak in 2000 of 5.98 million to 4.75 million to 2010. The Ambassador Bridge traffic has fallen from 12.44 million in 1999 to 7.23 million in 2010. This decline in volume is not limited to Michigan. Traffic at the Peace Bridge at Buffalo, New York has fallen from 7.3 million in 2003 to 6 million in 2010.

There are plans for a $400 million expansion of the Detroit Windsor Rail Tunnel that will handle double-stacked container trains. This will draw truck traffic from the existing vehicle crossings and further undermines the economic viability of the NITC.
A recent study by Anderson Economic Group (AEG) discussed the delays at the Ambassador Bridge, however, it relied on data from a 2002 and a 2005 study, both of which are outdated. AEG mentions delays of up to two hours then cites a study that uses 2001 data. Delays in the immediate aftermath of 9/11 are irrelevant in 2011. Later in the report it discusses average wait times of 15 minutes at Detroit in 2004 using the Bureau of Transportations Services (BST) 2005 report. This is the average wait times of commercial vehicles during daytime hours and BST revised that number in its 2010 study to 10.8 minutes for 2004 and the wait time fell to 4.1 minutes in 2009. Any interested reader can check wait times at the Ambassador Bridge for themselves in real time by going to www.ambassadorbridge.com and looking at the live web cam.

It has been reported that the Canadian government will loan Michigan $550 million to fund Michigan's share of the connection of the new bridge to I-75 and the new customs plaza on the U.S. side and this will result in an additional $2.2 billion in U.S. taxpayer dollars being directed to Michigan. There are at least three points to be made of this

First, the Canadians will have a larger equity stake in the new bridge until, if ever, the bridge tolls pay

back the Canadian loan. Given the bridge tolls may not be enough to meet the bond payments for building the bridge, the Canadians could end up owning the bridge.

Second, the amount of federal tax dollars available for Michigan to claim for transportation is set by the Surface Transportation Reauthorization Bill and is a fixed pool of funds, which in FY 2010 was about $1 billion. If Michigan is already spending $250 million on eligible projects, assuming a continued 4 to 1 match, then any extra Canadian funds adds nothing to the amount Michigan can obtain. We might note that Michigan has never failed to meet its full funding level.
Since Michigan generates about $1.8 billion for its transportation funds, then even if it failed to spend the $250 million, it could direct money from projects that were not eligible to projects that were to meet its match. In this case, the Canadian money would not be leveraged, but simply replace money that would have been spent on other projects

There are a number of other issues, such as the uncertainty of future federal funding, the effect of a government bridge on the economic viability of the existing crossings, and the eventual need for taxpayer subsidy of tolls at the new bridge, that support the legislative decision in 2006 and 2010 that there is no need for a government bridge.

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